

2006 FISCAL YEAR DEVELOPMENT CREDIT AUTHORITY ANNUAL PROGRAM STATEMENT

Program to Increase Access to Private Finance for Basic Services and Housing for the Poor

- a) Community Water and Sanitation**
- b) Integrated Shelter and Community Development Works**
- c) Sustainable Environment**
- d) Solid Waste Management**
- e) Clean Energy**

Ladies/Gentlemen:

The United States Agency for International Development (USAID) mission to South Africa (USAID/South Africa) is issuing this Annual Program Statement (APS) to invite private sector financial and non-financial institutions to submit proposals for using USAID's credit enhancement facility, referred to as the Development Credit Authority (DCA), to finance housing, municipal infrastructure and related services for low income families in South Africa.

USAID/South Africa's Local Government Service Delivery Strategic Objective (SO) team supports South Africa's efforts to increase access to shelter and basic services to Historically-Disadvantaged Households (HDHs) living in townships, informal settlements, and depressed inner cities throughout the country. USAID will support programs which target urban environmental issues, particularly those which serve to improve access to safe drinking water and sanitation systems and other features of the urban landscape, by utilizing approaches that leverage resources and promote sustainability. The APS: (1) describes USAID/South Africa's objectives to assist low income families obtain shelter and services; and (2) explains the process of submitting applications and the criteria for evaluation of applications.

Private sector financial and non-financial institutions are expected to bring significant new resources, ideas, technologies, and/or additional partners to address development problems which South African institutions are currently trying to address. Institutions could include foreign or domestic lenders: financial institutions or capital market participants / investors, non-sovereign borrowers, private-sector financial and non-financial institutions and private enterprises, utilities, municipalities, or other sub-sovereign entities. Successful proposals must bring in at least 1:1 leveraging on priority development activities within USAID's strategic framework.

This APS does not commit USAID/South Africa to award an agreement, or to pay any costs incurred in the preparation or submission of applications, or to procure or contract for services or supplies. USAID/South Africa reserves the right to reject any or all proposals, to negotiate with any applicant(s) considered qualified or to make awards without further applicant negotiations.

A. BACKGROUND

The USAID/South Africa Mission's Local Government Services Delivery Strategic Objective has supported the South African Government's efforts to provide basic services to HDHs and communities. The major areas of focus are improving municipal capacity to provide basic services, infrastructure, environmental management, increasing private financing for housing infrastructure and municipal services, and assisting non-governmental organizations (NGOs) and community-based organizations (CBOs) to develop viable housing and infrastructure projects. The program includes a Regional Housing

and Urban Environment Unit, which provides the platform for sharing experiences, mobilizing external capital towards infrastructure, and selectively using South Africa's leadership role in promoting sound urban management of resources elsewhere. USAID is working with the private sector in developing countries to expand investment in local development activities. USAID has used its Development Credit Authority (DCA) as well as the expertise and resources of the Agency's Global Development Alliance (GDA) Secretariat to help meet the South African Government's social and economic infrastructure targets under the Millennium Declaration.

The DCA is a legislative authority that enables USAID to share risk of loss with private sector financial institutions on non-sovereign debt. The DCA offers at least 50 percent *pari passu* coverage only, that is, losses must be shared at least on a 1-to-1 basis. There are relatively small costs associated with the use of the DCA, namely: (1) a one time subsidy to be paid by USAID, (2) a one time origination fee and, (3) semi-annual utilization fees for which the private financial institution is responsible. These partial credit guaranties mitigate the perceived risk associated with investing in social or innovative endeavors.

The guaranties help stimulate development by increasing the flow of capital to areas and activities that need it most. The capital that is made available as the result of a USAID guaranty can represent a significant resource for local business expansion, municipal infrastructure projects, and non-governmental organizations' community development projects across a variety of sectors. The goals of the DCA are to:

- 1) mobilize private capital to finance development objectives in countries where USAID does business; and
- 2) demonstrate the economic viability of such investments to the local financial sector and to other sources of private capital, thereby serving as a catalyst for increased private investment.

USAID has broad authority to extend partial credit guaranties for many types of debt. In the past, this has primarily consisted of loans and bonds. The four different guaranty instruments which USAID may use are:

1. Loan Portfolio Guarantees (LPGs): USAID provides a partial guaranty to a lender on a broadly defined category of loans with a view towards inducing local financial institutions to extend credit to underserved sectors. The specific borrowers are generally not identified at the time the guarantee agreement is signed.
2. Loan Guarantees (LGs): USAID guarantees one loan from a lender to a previously identified borrower.
3. Portable Guarantees (PGs): USAID provides a commitment letter to a private enterprise or non-sovereign entity that has been unable to obtain debt financing on satisfactory terms. USAID undertakes to partially guarantee a loan to such an enterprise, subject to the satisfaction of certain conditions. The commitment letter helps the enterprise obtain financing on favorable terms from financial institutions.
4. Bond Guarantees (BGs): USAID shares the risk of loss with bond investors on a bond issuance. The guarantee is issued to a trustee or common representative for the bondholders.

I. Leverage

USAID guarantees up to 50 percent of the net loss on principal for investments covered by a guarantee, sharing the risk with the private sector financial and non-financial institution. Guaranties provide local financial and non-financial institutions with an incentive to extend and expand into new sectors. In this

way financial institutions invest in their capacity to lend into new and potentially profitable markets while increasing the credit available to developing areas.

USAID/South Africa has used DCA funds to leverage private capital investment through partial guarantees provided to private financial institutions in support of increased investment in housing and municipal services, most recently with the Municipal Infrastructure Investment Unit (MIIU). DCA activities are designed and managed by USAID/South Africa and supported by the Office of Development Credit in Washington, DC. For more information about the objectives of the DCA program please refer to DCA website at:

http://www.usaid.gov/our_work/economic_growth_and_trade/development_credit/index.html

USAID has also published a brochure on DCA, “Credit Guarantee Year in Review 2004”, that briefly discusses the guarantee mechanism and provides examples of guarantees issued in 2004.

II. Program Eligibility Criteria

This Annual Program Statement (APS) invites proposals which are intended to support multiple activities responsive to local development challenges in low income communities in South Africa. Proposals should be focused on one or more of the following objectives noted below:

- Extending Water and Sanitation System Services
- Building Integrated Shelter Schemes
- Developing Sustainable Environment Improvements
- Extending and/or Improving Solid Waste Management Services
- Introducing Clean and/or Efficient Energy Generation and Distribution

Investment supported by the DCA must directly benefit HDHs and/or assist businesses to expand and develop markets for products and new technologies that improve housing and service delivery, introduce service management improvements, energy efficient technologies, environment friendly approaches to community development.

Potential partners under this APS may include a wide array of institutions, foreign and domestic: financial institutions or capital markets participants/investors and non-sovereign borrowers, private-sector financial and non-financial institutions and private enterprises, utilities, municipalities or other sub-sovereign entities. All applicants must be legally recognized entities under the laws of South Africa or other appropriate jurisdictions and authorized to operate in South Africa. Past applicants and/or users of USAID’s DCA are welcomed to apply.

To be considered for a DCA guarantee under this APS, proposed programs must meet the following requirements:

1. Assist South Africa in meeting its Millennium Development Goal targets in the following programmatic areas:
 - a. Extending Water and Sanitation System Services
 - b. Building Integrated Shelter Schemes
 - c. Developing Sustainable Environment Improvements
 - d. Extending and/or Improving Solid Waste Management Services
 - e. Introducing Clean and/or Efficient Energy Generation and Distribution
2. Benefit HDHs either directly or by making increasing access to finance for shelter and services.

3. Address a real or perceived market failure to deliver the proposed product(s) or benefit by sharing and mitigating risk.
4. Demonstrate that the proposed activity will be financially, economically, and socially viable.
5. Address gender-equitable participation in different aspects of the proposed activity.

III. Timing of Application Process

USAID/South Africa anticipates awarding guarantees to applicants under this APS based on the quality of submissions and the amount of funding available to USAID/South Africa's Local Government Services Delivery Program. The APS is open through September 2006 and the first round of proposals is expected by February 28, 2006. However, applications may be submitted any time during the validity of this APS. Applicants should be aware that funds are limited, and that early submissions are more likely to obtain funding. Applicants should note that there is a minimum time lag of six months between the approval of a final proposal and the funding of a project. Proposals will be reviewed every quarter, after February 28, 2006 i.e. March 31, June 30, and September 30.

B. APPLICATION SUBMISSION AND TIMING

I. Concept Paper

Applicants are required to submit 5-page concept papers following the format provided in Annex A. The applications must be presented in English with a font size of 12 only, which may be submitted electronically (word), by post, by courier, or by hand delivery to the addresses listed in Section C.

II. Final Proposal

Applicants will receive instructions on whether or not to proceed with a proposal. Technical comments received about the concept paper should guide the submission of the final proposal.

Further, for the possibility of complementary grant funding through Mission SO, applicants should review solicitations currently posted on www.sn.apc.org/usaidsa/business.html.

C. POINT OF CONTACT

Please direct all queries and submissions to:

USAID/South Africa
Local Government Services Office
Plaatjie Mahlobogoane
100 Totius Street, Groenkloof X5
PO Box 43
Groenkloof, 0027
Telephone: 012 452 2255 Fax: 012 452 2399
Email Address: pmahlobogoane@usaid.gov

Annex A
Concept Paper Outline for DCA Loan Portfolio Guarantee and Loan, Bond, or Portable Guarantee

1. Project Description and Development Analysis Information

a. Brief Project Description:

b. Economic justification. Please address the following in a few sentences:

- Market imperfections

(Specific barriers that discourage entry of new credit or suppliers.)

- Additionality (Will the DCA guarantee help create additional credit availability not replacing or competing with existing source of financing?)

2. Financial Institution (FI) Information, if available

a. Name & Address:

b. Contact person name:

Title:

Email:

Phone:

Fax:

c. Is the FI majority owned by the private sector?

Yes ___ No ___

d. Is the FI present or past DCA partner?

Yes ___ No ___

e. Has the FI been profitable in:

Last Fiscal year?

Yes ___ No ___

Year before?

Yes ___ No ___

Two years before?

Yes ___ No ___

f. Has the FI been audited in:

Last Fiscal year?

Yes ___ No ___

Year before?

Yes ___ No ___

Two years before?

Yes ___ No ___

g. Has the FI been rated?

Yes ___ No ___

h. If yes, please give the name of the rating agency:

3. Basic Anticipated Terms

- a. Type of guarantee. Check one: LPG () LG () BG () PG ()
- b. Total facility amount (i.e., total credit to be disbursed):
- c. Term of guarantee:
- d. USAID guarantee percentage:
- e. Guarantee ceiling (maximum USAID liability):
- f. Final date for disbursing qualified loans under the guarantee:
- g. Guarantee expiration date:
- h. Currency of loans, is there a mismatch?
- i. Estimated pricing – interest rate, fees:
- j. Basic anticipated credit criteria for asset class (e.g. collateral requirements, credit history):

If an Loan Portfolio Guarantee, please provide the following additional information

- a. Estimated Loan size (minimum, maximum, average):
- b. Estimated average maturity (months: minimum, maximum, average):
- c. Estimated number of borrowers:

4. Borrower Information:

Complete this section for loan portfolio guarantee (LPG) or bond guarantee (BG) with multiple end-borrowers. If applying for other products, skip this section and go to the next section.

- a. What is the borrowers' industry sector?
- b. How are they meeting their current financing needs?
- c. Average loan size:
- d. Average loan term:
- e. Purpose of the loan: Working capital () Asset purchase () Other ()
- f. Has this group borrowed from any FI in the past? Yes___ No___
- g. Has there been a study on the borrower group or the industry sector? Yes___ No___
- h. Have the borrowers received or are receiving any technical assistance? Yes___ No___
- i. If the answer is yes to h, please give a very brief description of the assistance and the length of the assistance:

5. Borrower Information:

Complete this section for loan guarantee (LG), bond guarantee (BG) for a single borrower, or

portable guarantee (PG). If applying for loan portfolio guarantee (LPG), skip this section.

- a. Borrower Name and address:
- b. Contact person name: Title:
Email: Phone: Fax:
- c. Primary Business:
- d. Date Established:
- e. Legal form:
- f. Last full year Revenue: Profit:
- g. Purpose of the loan: Working capital () Capital purchase () Other ()
- h. Has the borrower have experience in the purpose area? Yes___ No___
- i. Does the borrower have present/past borrowing experience? Yes___ No___
- j. Is the borrower present/past DCA partner? Yes___ No___

Date Submitted: Date Reviewed: